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SUBJECT: AN OPTIMISTIC GOU PASSES STIMULUS PACKAGE TO SUPPORT THE  
PRIVATE SECTOR; BUSINESS REMAINS UNCONVINCED

Ref: Montevideo 627

Summary  
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¶1. The GOU's economic team, composed of Minister of Economy Alvaro Garcia, Central Bank President Mario Bergara and Director of Planning and Budget Enrique Rubio presented its economic policy guidelines for 2009 to a large business audience on December 3. Official 2009 economic projections included GDP growth of three percent (down from 4.5 percent) and a budget deficit of 1.0 percent (up from 0.4 percent). The economic team also announced that the GOU would pay close attention to Uruguay's international competitiveness, take steps to help Uruguayan businesses face difficult times ahead, and continue keeping inflation under control. Similar messages are being delivered by individual members of the team at available opportunities. However, so far the business sector and press remain skeptical. End Summary.

Projected Impact of Global Crisis on Uruguay  
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¶2. The GOU anticipates the global crisis to impact Uruguay primarily via declining commodity prices (already down 32 percent from July 2008), more difficulties selling public debt in international markets, and falling exports of goods and services, including tourism. Economic team members stressed that the GOU is confident the crisis will not trigger a short-term capital outflow, hamper local firms' access to credit, weaken foreign direct investment or deteriorate Uruguay's terms of trade.

Preventive Measures  
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¶3. At the event, Minister Garcia announced measures to help the private sector weather the tough economic times ahead. To support exports, the GOU will institute new credit lines to exporters, create a USD 20 million guarantee fund for sales to risky markets and improve export financing conditions. It will also work to shore up private investment by promoting new sectors, temporarily increasing tax incentives for 2009 projects, launching new credit lines for investors, ensuring continued private sector participation in major infrastructure projects, and creating a guarantee fund to ease small firms' access to credit.

¶4. The GOU also plans to adjust fiscal accounts by increasing some taxes and restricting public expenditure, mainly by increasing utilities tariffs and slashing public firms' investments and expenditures by "at least 5 percent." Garcia also announced that, in order to support the tourism sector, the GOU will instate a duty-free system to deduct taxes from tourists' purchases of Uruguayan goods, eliminate VAT from tourists' house rentals and give them small gas coupons. The GOU does not expect the stimulus package to negatively impact public finances.

Private Sector Unconvinced  
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15. While acknowledging that most of these measures are a move in the right direction, private sector representatives gave a cool reception to the package, arguing that it doesn't do enough and that the economic outlook is much gloomier than assessed by the GOU. Several economic analysts also think that the global crisis will have a greater impact on Uruguay's economy than expected by the GOU.

Some analysts downplayed the impact of most measures and pointed out that the two really meaningful ones are the strengthening of public firms' balance sheets and the preservation of a flexible exchange rate policy. Several analysts criticized the GOU for not accumulating a fiscal surplus during the past two years of booming growth and failing to generate the necessary savings to help the economy weather the rainy days to come (Reftel).

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